

STATEMENT BY SECRETARY FEDERICO PEÑA
SENATE SUBCOMMITTEE ON TRANSPORTATION
AND RELATED AGENCIES
HEARING ON AIR TRAFFIC CONTROL CORPORATIZATION
MAY 12, 1994

Good morning, Mr. Chairman, Members of the Subcommittee. I appreciate the opportunity to discuss our proposal for reforming the air traffic control system. At the outset, I want to thank the subcommittee for holding this hearing. All too often in government, it's easy to simply say "no" to change. It's easier to let things go on as they are rather than taking the time to look hard at a system, identify its weaknesses and try to fix them before they become serious problems. As the Vice President said last week when we announced our proposal, we shouldn't wait to act until we're forced to.

But, Mr. Chairman, you and the other members of this subcommittee deal with the problems faced by the FAA every year when you put together the appropriations bill. When we unveiled our proposal last week, you spoke of the frustrations that you have experienced year after year, with delayed acquisitions, obsolete technology, inefficiencies, delays, and staffing problems.

We want to address those problems. Our goal is to make the changes necessary to allow the air traffic control system to be as safe, efficient, and cost-effective as it can be -- today, tomorrow, and into the next century.

FIRST HAND EXPERIENCES

Over the last few months, I've travelled to air traffic control facilities from Tampa to Seattle. What I've seen has troubled me. Let me take a few moments to summarize some of what I've seen.

Throughout the system, we have Univac computers dating back to the Eisenhower and Kennedy Administrations. These computers, which would each take up a sizeable piece of this hearing room, have a fraction of the computing power of a standard lap-top computer you can buy off the shelf.

Incredibly, the FAA is the largest consumer of vacuum tubes in the world, with over 500 sites still using this technology. This at a time when a single microchip has the power of almost 3.5 million vacuum tubes.

At the en-route center in Leesburg, Virginia, where traffic throughout the mid-Atlantic region is controlled, a facility manager proudly pointed out some equipment that was only 18 months late in delivery.

In Seattle, the facility manager complained about a process that has taken over two years to

move a wall, so that controllers in the TRACON aren't shoulder-to-shoulder.

In Detroit, the FAA built a brand-new tower, and then put 35-year old equipment, cast-off from Chicago and Denver, into it.

In Chicago and other high-cost high-activity facilities, the FAA has put together stop-gap programs to try to attract and retain staff.

In Tampa, training on equipment maintenance is passed on by word-of-mouth, as the companies that built the systems have long-since gone out of business.

In Omaha, the youngest systems specialist -- the people who maintain the equipment -- is 49; and it takes 5 years to train new personnel, not in the use of new technology, but in the use of vacuum tubes that they've never seen in their previous education.

In Atlanta, we came across a 1957 manual for maintaining the radar system.

In Los Angeles, the ground radar system relies on vacuum tubes that are made by a single manufacturer in the United Kingdom. The only way they know if the tubes work is to plug them in, live.

These are not isolated examples. You can visit any facility in the country and see similar cases and hear comparable stories. The problems are systemic.

In an age when quality graphics are available on computers being used by elementary school children, we don't even have color monitors for air traffic controllers.

While we can turn on any TV station in the country and see doppler weather displays, our controllers rely on pilots out in the system for weather reports.

In an age when computer technology allows memory boards to be replaced in a moment, our systems specialists have to resort to jerry-rigging old equipment and having parts custom-made at machine shops so that the system doesn't go down.

As we head into the 21st century with micro chips of ever-increasing power, we're still using vacuum tubes invented at the turn of the last century.

The problem is clear. We are trying to run a technologically-driven, 24-hour a day operation under rules that were designed before much of this technology even existed. We're challenged to ensure the safety of half a billion passengers a year and the efficiency of a cutting edge industry that accounts for \$80 billion in our economy each year. We're not keeping pace. And, after everything that I've seen, after everything I've been told by controllers and technicians from all over the country, I am very troubled about our ability to meet these challenges without a dramatic change.

COMPARISON WITH CORPORATE EFFICIENCIES

We have an example right in our own backyard of how an operational entity freed from government restrictions can make dramatic improvements. National and Dulles Airports used to be owned and operated by the FAA. Congress and the Administration saw massive capital improvements that were needed, but had been put off for years. They saw that the prospects for making those improvements under the federal structure were virtually nil, and decided to take those airports out of the government. The responsibility for running the airports was placed with a regional authority, with the traditional safety and security oversight remaining with the FAA. Today, as you are all well aware, capital improvements that would have been impossible before are underway, through a \$2 billion program being financed by the new regional authority; not the general taxpayer.

Let me give you another case. Two weeks ago, I was in Omaha, Nebraska, where I had the privilege of spending time with Senators Exon and Kerrey. While there, we saw the dramatic contrast between what can - and cannot - be done in the rigid structure of the FAA versus the entrepreneurial environment of a corporation, as represented by the Union Pacific Railroad.

We first visited the Omaha TRACON facility, where employees were so frustrated by the federal procurement process that they went out on their own and purchased and installed carpeting, wallpaper, and decorations rather than wait out the FAA's exhaustive and costly procurement process. As in so many other locations, they pointed out the old Univac computers, the equipment that had taken 10 years to replace, and, incredibly, they explained that they had just replaced their card-punch reader within the last year. As the Chairman well knows, this technology disappeared from the private sector 25 years ago.

We then went to the Union Pacific dispatching center. For the railroad, this facility performs much the same function as ATC. From this single facility, they monitor the condition of and activities on 18,000 miles of track throughout the country. It's a testament to modern technology, promoting safety and efficiency throughout the system. In a room about the size of a football field, there are floor-to-ceiling multi-color screens, displaying real-time information about every train operating on every one of the 18,000 miles of track.

As impressive as this system is, perhaps the most compelling contrast with the ATC system is how it was procured. From design to installation, the Union Pacific took less than one year. Meanwhile, the FAA struggles to execute even simple contracts in 2 to 5 years.

The FAA has a 11-foot stack of laws and regulations that it must follow; the Union Pacific -- a corporation that spends over \$700 million a year in capital improvements -- accomplished this project on the basis of a 5 page memo.

PROBLEM AREAS BEING ADDRESSED

In order to be able to keep pace with the growing demands being placed on our air traffic control system, we need to address four major problem areas: personnel, procurement, finance, and what I call the "culture" of FAA in its current structure. In doing so, we need to recognize that the air traffic control system deserves different treatment because it is unique. Nowhere else in government is there a 24-hour-a-day, 365-day-a-year operation like ATC, upon which an \$80 billion industry and half a billion passengers are entirely dependent.

The first area in need of reform is personnel. The federal system is, in a word, inflexible. It is a system in which we can't provide incentives to staff high-cost, busy facilities without clearing numerous hurdles. Any corporation with the need to run an efficient operation has that ability. So should the air traffic control system. Our proposal calls for a new personnel system, freed from the restrictions of the federal government, and patterned after the best private sector personnel systems.

Second, there is the area of procurement. As I've already noted, the FAA has a stack of procurement requirements 11 feet high. It takes the FAA, on average, 2 to 5 years to execute relatively simple contracts. Many of the rules and regulations trace back to before much of today's computer technology even existed. Experience shows us that it is impossible to keep pace with the rapidly changing technology and new demands with the system we have in place now.

Our proposal is to let the air traffic control system work more like modern day corporations, with the ability to bring on new technologies before they're obsolete.

The third area of focus is finance. As this subcommittee is well aware, the cost of modernizing the air traffic control system will run into the billions. In the face of increasingly tight budgets, the ability to fund this type of investment at the rate needed to keep pace with growing demands is extremely unlikely. After transition, our proposed corporation would be funded by user fees, paid directly to the corporation. There would be no general fund monies going to the corporation.

The fourth area of reform is the "culture" of FAA, one in which the dedicated men and women of the FAA have come to accept the limitations of the system that they work in and accept them as "normal."

It's when a facility manager proudly points out equipment that was "only" 18 months late in delivery.

It's when technicians routinely go to machine shops to have parts custom-made so that the system keeps running, because they know that the procurement system can't deliver in time.

It's when controllers rely on pilots in the system for weather information.

It's the culture of the system that discourages any innovation on the part of program managers who know that they'll have to go through the whole procurement process anyway.

We want to transform that culture. We need an environment with an entrepreneurial spirit, with incentives for innovative thinking and action. We need a culture where productivity thrives as old barriers are removed.

In sum, we want to provide the air traffic control system with the tools that it needs to be as safe, efficient, and cost-effective as possible in meeting the challenges of the 21st century.

DEVELOPMENT OF PROPOSAL

We're not the first to recognize these problems. Over the last decade, seven major studies have called for a corporate structure to run the ATC system. Last year, the National Airline Commission and the Vice President's National Performance Review made the same recommendation.

To move forward, we put together a high-level working group with representatives from 13 federal agencies and government corporations. We solicited input from those who use the system, day in and day out. And, we worked closely with the FAA employees who actually make the system work.

SUMMARY OF PROPOSAL

As described in the report that we submitted to Congress last week, our proposal calls for a fundamental restructuring of the air traffic control system, taking it out of the FAA and establishing a wholly-owned government corporation. This corporation would have the responsibility of operating the system; the FAA would retain the authority and mandate to regulate it, just as it regulates the safety of literally thousands of private and public corporations today.

It would be governed by a board of directors with staggered terms, representing a cross-section of system users, employees, and general interests. The board, appointed by the President and confirmed by the Senate, would select a CEO, who would have the day-to-day responsibilities of running the corporation. The CEO would not be subject to political change; as long as the CEO is performing well, he or she will keep his or her job.

The corporation would be freed from the burdensome federal personnel and procurement rules, and would be free to adopt new procedures, modeled on best business practices, that allow it to operate more safely and efficiently.

The corporation would have the ability to finance capital improvements through borrowing, to ensure that ongoing modernization needs are met.

The corporation would be funded by user fees, with no general fund monies.

The staff assisting the interagency group that put together the proposal asked Arthur Andersen & Company and Gellman Research Associates (GRA) to put together a series of financial assumptions, looking both at the viability of the corporation and the ability of the remaining Trust Fund to meet its obligations.

In summary, their analysis makes two points. First, that the corporation can, under a variety of scenarios, be self-sustaining. Second, that we can ensure the continued operation of important programs funded by the FAA, such as AIP and research and development, through the remaining Trust Fund.

And, there is another important conclusion reached by Arthur Andersen and GRA. Among the scenarios that they considered was what they call the "baseline." This assumes that total FAA and corporation spending over the next ten years would be comparable to projecting the current FAA budget out over that timeframe. That is, it does not assume any aggressive new spending by the corporation. Under this scenario, they conclude that the corporation could reduce user fees by a total of \$3.8 billion over ten years. These would be savings realized by industry, and, presumably, passed on to the consumer. Additionally, although we can't pre-judge what the corporation or Congress will do in the future, their report shows a baseline projection of close to \$18 billion saved for the general taxpayer over 10 years.

Another scenario shows that corporation investment could be increased by \$5 billion over the baseline projections, without any increase in user fees.

That's good news for the general taxpayer, for the consumer, and it's an example what the Vice President is talking about when he calls for a government that works better and costs less.

INTERNATIONAL PRECEDENTS

Interestingly, we are not the first to take bold steps to improve our air traffic control system. In making this recommendation for a corporatized ATC, we drew on the experience of a number of other countries that have already done it. While we clearly cannot compare the ATC systems of countries like the United Kingdom, Germany, Australia, or New Zealand with ours, we can learn from their experiences. They experienced many of the same problems that we face. And, when you look at what they've accomplished after forming a corporate structure compared to the more traditional governmental structure, the story is compelling.

Overall, these systems have become more efficient, less costly, and, most importantly, are safe. The UK has been operating under this structure for twenty years, and is looking at going further. Fees in the UK, Australia, and New Zealand have been reduced, with savings going to consumers. Modernization programs have been undertaken without burdening the taxpayers, and without incurring the types of delays and cost overruns that plague the FAA. Delays in Germany have been reduced, and productivity has increased.

Clearly, Mr. Chairman, the international precedents show that ATC systems can function more efficiently and cost-effectively when taken out of the traditional governmental structure. And, as reported by those running the systems, these freedoms translate into enhanced levels of service and safety for travellers.

BROAD SUPPORT

It is this international experience, combined with the frustrations of working within the current restrictions, that have created a broad base of support for our proposal.

Whether it's Herb Kelleher of Southwest Airlines; Fred Smith of Federal Express; Randy Babbitt of the Air Line Pilots Association; the air traffic controllers and systems specialists of the FAA; the airports; the International Airline Passengers Association; the aviation manufacturers; or the financial community on Wall Street, there's a recognition of the need for change and support for our concept. As anyone who's involved in the legislative process will attest, it's rare to have that sort of consensus on any issue. I hope that Congress will hear their concerns and note their support, and work to advance the necessary changes.

QUESTIONS RAISED

We fully recognize that our proposal is not free of criticisms, and I would like to address them.

First, we've heard that our proposal will compromise safety. Mr. Chairman, this proposal is all about safety. Neither I nor the Vice President, nor anyone in this Administration would do anything that would jeopardize the safety record of the FAA. Safety is, and will remain the absolute top priority for the FAA. And, Mr. Chairman, I would contend that no one cares more about the safety of this system than the people who have compiled the record that we are all so proud of -- namely, the controllers and technicians, who are clamoring for this change.

We agree with them that we will enhance safety by replacing vacuum tubes with new technology, and trading an unresponsive personnel system for one that can put people where they're needed.

There has also been concern expressed about putting safety responsibilities in the hands of a corporation. The reality is that the vast majority of the regulation that the FAA does today is of private corporations. The safety record of U.S. aviation is the result of the combined efforts of industry, workers, and the FAA. The FAA sets specifications for the performance of aircraft; it does not build them. The FAA sets training, staffing, and other standards for flight crews, flight attendants, and airline mechanics; it doesn't employ them. These regulatory relationships work. And, they recognize that there are inherently governmental activities, such as safety oversight, that should remain governmental. But operational activities are more efficiently and effectively done by those outside of the government. That's what we propose in our plan.

Second, we've heard charges that the Administration didn't look at other options. Mr. Chairman, that's simply not the case. Our report discusses 4 separate options, ranging from reforms within the existing structure to a fully privatized organization, and discusses the benefits and limitations of each of those options. We are also reminded of the fact that the FAA has undertaken 24 different reorganizations since 1985, yet has not been able to address the underlying problems. As I stated earlier, our goal is to make the changes necessary to enable our ATC system to be as safe, efficient, and cost-effective as possible today, tomorrow, and well into the next century. We want to have a full and open discussion of how to achieve that goal.

There have been questions raised about just how much of a problem there really is. Mr. Chairman, you understand computer technology. When you look at this vacuum tube -- a technology invented at about the same time of the Wright Brothers first flight, and recognize that the FAA is still using tubes at some 500 locations across the country, you have to acknowledge that something's wrong. Today, the ATC system is held together by people who just won't let it fall apart. But, there are limits to what they can do with the tools we have given them. They deserve better. The traveling public deserves better.

Some have raised questions about how great a role technology can play in addressing our problems. I absolutely agree that technology isn't a panacea. But, it's a tool that our workers need and deserve. In fact, our current system relies far more on the professionalism of our workforce than it does on any leading edge technology. But, as we head into the 21st century, we should not be relying on technology that was invented at the beginning of this century. Today, a new generation of computer technology comes about every 6 months. Today's airplanes have the latest in technology because aircraft manufacturers and airlines know that new technology means improved safety and efficiency. Right now, we're the weak link in the evolution of aviation technology. The new Boeing 777 is a whole lot different than what the Wright Brothers flew at Kitty Hawk. Our ATC system should change along with it.

I want to point out that our proposal also addresses very clearly the principal concerns that had been expressed by general aviation. You'll hear from Phil Boyer of AOPA later this morning. But let me say that they were concerned about two major issues: first, a concern

that an airline-dominated board of directors would impose new, prohibitive fees on general aviation; second, that general aviation would be denied access to a system operated by a corporation.

We heard the concerns of general aviation, and the proposal reflects that. It expressly recommends that general aviation pay no new ATC fees. The same statutory guarantees that today ensure access to the system for general aviation would govern our airspace under a corporate structure. I also want to be clear that this will not be a corporation dominated by the airlines. That has been a basic premise for me from the beginning. The airlines and their passengers are users of the system, and they should have a voice. But, under our proposal, so will general aviation, through a seat on the board.

I've met with Mr. Boyer, and we've discussed his concerns. I believe that our proposal addresses the concerns that he outlined. Our proposal would guarantee free access to a better ATC system for general aviation. By any measure, that's a good deal for general aviation. And, by providing those incentives to help ensure that anyone flying in controlled airspace is in contact with the ATC system, it will help ensure a safer environment for everyone. I know that AOPA and others have some remaining issues that they want to see clarified, and we'll continue to work with them as we move through the process.

It has also been suggested that the problems can be fixed without the type of fundamental changes we're proposing. Mr. Chairman, as you well know, it's been tried. I earlier spoke of the two dozen reorganizations that FAA has gone through in the last decade. Over the years, the frustrations with the process have led to proposals from many, including some in Congress, for fundamental change in structure. The more that we looked at the problem areas -- procurement, personnel, budget, and what I call the "culture" of FAA -- the more we recognized just how deeply interrelated they are. If we really want to address the underlying problems, we need to be willing to embrace bold and sweeping change.

MOVING FORWARD

Mr. Chairman, we have submitted our report detailing the problems, and evaluating a range of options for addressing those problems. We know that there is a wealth of knowledge and experience in the Congress, and we want to benefit from that. We want to work with this subcommittee and all in Congress to ensure that our air traffic control system is all that it can and should be.

CLOSING

In closing, let me again thank the subcommittee for holding this hearing. This is an important issue. The problems are real, and they're not going to just go away. The opportunity to address them is here. As you and your colleagues examine our proposal, I hope that you'll listen very carefully to the people who work in the system. FAA's

controllers and systems specialists have kept this system as safe as it is in the face of tremendous obstacles. You'll hear from Barry Krasner of NATCA and Howard Johannssen of PASS later this morning. Their voices are the most important, because they're the ones who know best what this system can and cannot do.

Mr. Chairman, I thank you and the subcommittee for your time, and look forward to working with you on this important initiative.